

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Application for Review of Alternative
Regulation Plan
Illinois Bell Telephone Company

Petition to Rebalance Illinois Bell
Telephone Company's Carrier Access and
Network Access Line Rates

Citizens Utility Board, People of the State of
Illinois

v.

Illinois Bell Telephone Company

Docket No. 98-0252
CHIEF CLERK'S OFFICE

Docket No. 98-0335

Docket No. 00-0764

(Consol.)

On Reopening

****PUBLIC VERSION****

**CLECs' JOINT BRIEF ON PROPOSAL
FOR ALLOCATION OF MERGER SAVINGS**

AT&T Communications of Illinois, Inc., WorldCom, Inc. and McLeodUSA
Telecommunications Services, Inc. (collectively referred to as the "Joint CLECs" or
"CLECs") hereby submit their initial brief on the Joint Proposal of Ameritech Illinois
("Ameritech" or "Ameritech Illinois") and the Government and Consumer Intervenor¹
(collectively, "GCI") for the resolution of the merger savings issues in this consolidated
proceeding.

I. INTRODUCTION

Ameritech Illinois will likely portray the Joint CLECs' criticism of limited parts of
the Joint Proposal as an attempt to scuttle Ameritech's valiant efforts to refund a portion

¹ This group includes the Citizens Utility Board, the People of the State of Illinois, the Cook County State's
Attorney's Office and the City of Chicago.

of its sizeable merger savings to an eager public.² Nothing could be further from the truth. The Joint CLECs fully understand that settling the complex and litigious issue of estimating and allocating the savings that have resulted from the SBC/Ameritech merger could benefit all involved. However, the Joint CLECs cannot agree that the Joint Proposal supported by Ameritech Illinois and GCI will result in a fair and equitable settlement of the issues before the Commission for all parties. Most notably, the Joint Proposal deviates completely from both the letter and spirit of the Commission's original Merger Order,³ a point which Ameritech witnesses in this proceeding did not, indeed could, not dispute. Transcript ("Tr."), pp. 2645, 2838.

In its Merger Order, the Commission outlined the equitable appropriation for competitive carriers in finding that "[c]arriers purchasing [Ameritech Illinois'] UNEs, interconnection, and transport and termination services *will benefit from merger-related savings through updated rates resulting from modification of its TELRIC, shared and common costs.*"⁴ The Merger Order has not been reversed, superceded, or otherwise altered. Moreover, as readily conceded by Ameritech's witness Johnson, the Commission in its Merger Order did not give Ameritech the discretion option of how to flow through merger savings to its customers. Tr., p. 2838. The Commission's Merger Order directed Ameritech how to flow through merger savings. Yet, in spite of a Commission order that

¹ This group includes the Citizens Utility Board, the People of the State of Illinois, the Cook County State's Attorney's Office and the City of Chicago.

² The Commission can take administrative notice of the SBC/Ameritech ads that have run in various Illinois newspapers over the last few weeks, blaming CLECs (and even the ICC) for standing in the way of Ameritech Illinois' purported efforts to issue refunds to its residential customers.

³ *Joint Application for approval of the reorganization of Illinois Bell Telephone Company d/b/a Ameritech Illinois and the reorganization of Ameritech Illinois Metro, Inc., in accordance with Section 7-204 of the Public Utilities Act and for all other appropriate relief*, Docket No. 98-0555, Order, September 25, 1999 (hereafter the "Merger Order").

could not be more clear, Ameritech and GCI now urge a settlement that would not give the CLECs the long-term, pro-competitive relief expressly provided in the Merger Order, but instead, a watered-down, one-time rebate that will not give local competition in Illinois the boost contemplated by the Commission. As discussed further below, the Joint CLECs urge the Commission to reject the Joint Proposal as relates to the relief provided therein for Ameritech's CLEC customers and instead adopt CLECs' recommended reduction in Ameritech's shared and common allocation factor.

The CLECs also urge the Commission to make adjustments to Joint Proposal as it relates to savings for CLECs' business customers served by resale. As discussed in this brief, McLeodUSA challenged the assumption in the Joint Proposal that, like Ameritech, 13% of CLEC resold business lines are "small business customers" with four lines or less under the Joint Proposal and therefore eligible for the merger savings credit.

McLeodUSA challenged the use of this Ameritech proxy for CLECs, demonstrating instead that 43% of McLeodUSA's business lines served via resale are "small business customers." This modification to the Joint Proposal (for McLeodUSA resold business lines) was agreed to by Ameritech, GCI and the Commission Staff. Joint CLECs urge the Commission to adopt the McLeodUSA proxy for *all* CLECs serving business customers via resale. The McLeodUSA percentage would be more representative of the CLEC business model than Ameritech's experience. Finally, the Commission should also adopt the changes proposed by McLeodUSA for resold Centrex lines.

⁴ Merger Order, p. 146 (*emphasis added*).

II. THE TRUE NATURE OF THE JOINT CLECS' POSITION

The Joint CLECs concur that settling these proceedings could benefit all involved, and the CLECs are certainly not trying to scuttle any settlement. Joint CLEC Ex. 1.0 (Starkey Direct), p. 3. The CLECs also believe, however, that the Joint Proposal departs so fundamentally from the Commission's Merger Order with respect to the manner in which the CLECs should receive their share of the allocated merger related savings, that they must oppose that portion of the Joint Proposal. The Commission's Merger Order provided a reasoned and economically sound approach to allocating refunds to competitors, and both the letter and the spirit of that decision should govern any allocation plan. Id., p.2.

The Commission's original Merger Order states:

It is the ruling of this Commission that the net merger-related savings should be allocated to Ameritech Illinois' customers as follows:

- (1) Carriers purchasing AI's UNEs, interconnection, and transport and termination services will benefit from merger-related savings through updated rates resulting from modification of its TELRIC, shared and common costs.
- (2) Once the share of the merger-related savings allocable to UNEs, interconnection, transport and termination purchasers have been identified, the remaining balance of savings will be allocated to interexchange, wholesale and retail customers. This will be done by dividing the remaining merger-related savings between IXC's on the one hand and end users (whether served via retail or wholesale) on the other, based on the relative gross revenues of each of these two groups.⁵

In keeping with the Commission's express ruling in the merger proceeding, the CLECs submit that any approved settlement of these consolidated cases permit purchasers of UNEs and interconnection services to "benefit from merger-related savings

through updated rates resulting from modification of its [Ameritech Illinois'] TELRIC, shared and common costs." The CLECs therefore urge the Commission to adhere to the terms of the Merger Order and pass merger-related savings on to competing carriers by reducing the shared and common cost percentage currently included in Ameritech's rates for UNEs and interconnection-related services.⁶ Joint CLEC Ex. 1.0 (Starkey Direct), pp. 3-4.

Contrary to Ameritech's assertions, the CLECs' recommendation does not undermine the Joint Proposal advanced by Ameritech and GCI. As recognized in the Merger Order, the CLECs' recommendation and the Joint Proposal are two distinct plans that cover two distinct groups of parties. In this consolidated proceeding, the Commission could both approve the "one-time refunds" desired by the consumer groups and Ameritech for retail and resale customers, *and*—rather than simply issuing a similar one-time credit to CLECs – allocate the competitors' share of the merger savings by reducing Ameritech's shared and common cost markup attributable to UNEs, interconnection and transport/termination services, as ordered by the Commission. The CLECs do not challenge the terms of the Joint Proposal as they relate to retail and resale customers.⁷ The CLECs ask only that the Commission not nullify the carefully-wrought, pro-competitive provisions of the Merger Order by shying away from its clear directive

⁵ Merger Order at 146.

⁶ In his testimony, CLEC witness Michael Starkey distinguished between those competing carriers purchasing UNEs and interconnection services, versus those competing via resale of Ameritech's retail products. The CLECs believe that carriers reselling Ameritech's retail products should be afforded merger-related savings consistent with the changes to the Joint Proposal agreed to by Ameritech and GCI. This will be discussed later in this brief.

⁷ To clarify, the Joint CLECs do not seek to challenge the terms of the Joint Proposal except with regard to the modification of the Joint Proposal for resale customers.

that Ameritech distribute the UNE/interconnection purchasers' share of merger savings through reductions in UNE prices. Id., p. 4.

The CLECs' proposal would be no more burdensome for Ameritech to administer than the Joint Proposal. While Ameritech witness Johnson alluded to "software changes" that Ameritech would have to make if the Commission does not accept the Joint Proposal in its entirety, Ms. Johnson appeared to be referring to changes in the customer groups actually receiving a credit. See Ameritech Illinois Ex. 13.0 (Johnson Direct), p. 8. With the exception the allocation assumptions for resale customers discussed later in this brief, the CLECs' recommendation in this proceeding would not alter the refund type or amount payable to either residential, small business, or IXC customers, and Ameritech could proceed with its refund preparations exactly as planned for those customers. The only necessary change for CLECs would be for Ameritech to reduce the "fixed allocator" currently applied to its TELRIC costs to arrive at TELRIC-based UNE and interconnection service rates, rather than to refund a lump sum to the CLECs. Joint CLEC Ex. 1.0 (Starkey Direct), pp. 4-5.

III. THE COMMISSION SHOULD IMPLEMENT ITS MERGER ORDER AND REDUCE AMERITECH'S SHARED AND COMMON OVERHEARD

The CLECs have manifold reasons for proposing a reduction to the shared and common overhead allocator, as opposed to simply accepting the Joint Proposal's trivial, one-time cash refund. First, and crucially, this approach is exactly what the Commission ordered in its Merger Order. While settling this issue and bringing finality to the distribution of merger-related savings is attractive (by avoiding future measuring and price cap changes), the manner by which those savings are allocated should not depart so

fundamentally from the Commission's original decision. The Commission accurately recognized that merger related savings would manifest most obviously in reductions to SBC/Ameritech's overhead costs—indeed, this is the primary benefit for most merging entities. Recognizing savings in the area most likely to benefit from the merger simply makes sense, both from a public policy perspective as well as from an economic standpoint. Id., pp. 5-6.

Second, Ameritech's shared and common cost "fixed allocator," which currently stands at a whopping ** ** [CONFIDENTIAL]⁸ is one of the highest in the nation, and certainly the highest in the Ameritech (and perhaps the entire SBC) region. Although the Commission ultimately approved Ameritech's methodology for calculating shared and common costs in its order in Ameritech's TELRIC proceeding, many questions have arisen regarding the manner by which Ameritech's methodology results in such an enormous fixed allocator. Indeed, the Commission Staff is urging the Commission to reduce the enormous shared and common mark-up in the current investigation into Ameritech's unbundled local switching/shared transport costs. See Staff Exhibit 36.0 (Marshall Rebuttal), p. 8. And in this proceeding, Staff witness Marshall asserted her belief that the Joint Proposal does not preclude passing merger related savings to CLECs through a reduction in the shared and common mark-up. Id., p. 7.

Given the Commission's original Merger Order, the CLEC community has, for some time, looked to the process of measuring and allocating merger-related savings (and the related proceeding set to allocate such savings) as a proper venue in which to pursue

some relief from Ameritech's enormous – and likely artificially high—fixed allocator. The CLECs' primary concern with the Joint Proposal reached between Ameritech and the consumer groups is that it unnecessarily robs the CLEC community of this opportunity to seek a more reasonable fixed allocator, which is clearly what the Commission had in mind. Ameritech Illinois' desire to ram through the Joint Proposal, even though Ameritech can provide the same relief to its retail and resale customers under the CLECs' counterproposal, strongly indicates that Ameritech is using the Joint Proposal as a means to deprive the CLECs of their right to see the Commission implement a reduced fixed allocator under the guise of attempting to issue speedy refunds to the consumers of Illinois. Given this, the Commission should view the Joint Proposal with a healthy dose of skepticism. Joint CLEC Ex. 1.0 (Starkey Direct), p. 6.

Third, the Commission now has the benefit of new information that would provide the Commission with a more realistic view of Ameritech's *post-merger* shared and common costs. The Merger Order required Ameritech to prepare and submit a shared and common cost study aimed specifically at recognizing reductions in shared and common costs resulting from its merger with SBC. Similarly, in UNE cost proceedings in other states within the Ameritech region, Ameritech has submitted new shared and common cost studies that reflect shared and common cost mark-ups substantially lower than the one currently effective in Illinois. *Id.*, p. 7. Indeed, since the Commission made its decision in Docket No. 96-0486, Ameritech has completely abandoned the shared and common cost methodology originally developed by Andersen Consulting (which happens

⁸Joint CLEC Ex. 1.0 (Starkey Direct, p. 6. Although Ameritech has on previous occasions included the precise mark-up in public documents, CLECs will nonetheless consider the number confidential for

to be the very methodology adopted by this Commission). As a result, Ameritech has very recently (February 8, 2002) submitted completely new shared and common cost studies in an Indiana TELRIC docket that result in a fixed allocator substantially lower than that currently applied by Ameritech in Illinois. The following confidential table provides a summary comparison of the fixed allocator currently applied in Illinois (approved in 1997) with information available from other jurisdictions with respect to SBC/Ameritech shared and common costs:

Ameritech's Current Illinois Fixed Allocator:

** ** [CONFIDENTIAL]

Jurisdiction Filed	Fixed Allocator (Shared & Common)	Description	Cite
Illinois	** ** ⁹ [CONFIDENTIAL]	Filed by Ameritech in response to Commission's <i>Merger Order</i> .	Ameritech response to CLEC 3 rd DRs., Question 3
Indiana	** ** [CONFIDENTIAL]	New Methodology proposed by SBC/Ameritech. Filed in ongoing Indiana cost docket	Attachment DJB-1 Cause No. 40611-SI Filed 2/8/02
Indiana	14.93%	Overhead percentage approved by IURC for Ameritech in setting UNE rates	IURC Order, Cause No. 40611, page 31
Texas	13.1%	SBC shared and common cost markup applied in Texas as result of T2A	

purposes of this brief.

⁹As CLEC witness Starkey testified, the ** %** [CONFIDENTIAL] figure represents the "total common" cost markup included in Ameritech's "Shared and Common Cost Factors Model." While Ameritech also includes ** %** [CONFIDENTIAL] for "Product Support" costs, the Commission must be careful to ensure that these expenses are not double recovered. It is apparent that the shared and common cost methodology used by Ameritech in this study differs from the methodology adopted by the Commission in Docket No. 96-0486. Likewise, "product support" expenses were originally included in the direct TELRIC costs (not shared and common costs) using Ameritech's previous methodology. It is for this reason that he used the ** ** [CONFIDENTIAL] figure as the applicable shared and common cost markup identified within the study. See Joint CLEC Ex. 1.0 (Starkey Direct), p. 7, FN 7.

		proceedings	
Wisconsin	23.4%	Percentage required by the Wisconsin PSC in establishing Ameritech's current UNE rates. Wisconsin PSC expected to release more current order on February 28, 2002.	<i>Findings of Fact, Conclusions of Law, and Second Order</i> , Docket No. 6720-TI-120, page 31.
Michigan	Substantially lower than Illinois, more comparable to Indiana.	The Michigan Commission substantially reduced Ameritech's Shared and Common cost proposal in Case No. U-11280 and reaffirmed its decision in Case No. U-11831	Ameritech considers the shared and common cost fixed allocator in Michigan to be a proprietary number.
Ohio	Confidential	Like Illinois, the Ohio P.U.C.O. has not reviewed Ameritech's fixed allocator since 1997.	Commission decisions in Case No. 96-922-TP-UNC

Joint CLEC Ex. 1.0 (Starkey Direct), pp. 6-8.

The chart shows that the shared and common mark-up in Illinois is substantially higher than in virtually every other SBC state (the lone exception being Ohio). Ameritech witness Barch admitted during cross-examination that two other SBC states left off of Mr. Starkey's chart—Kansas and Arkansas—have approved shared and common mark-ups of 10% and 16.91%, respectively. Tr., p. 2823. Clearly, the existing shared and common mark-up in Illinois stands out across the SBC region. As contemplated by the Commission in its Merger Order, implementing the pass-through of merger savings is the vehicle for reducing this excessive mark-up to a level that is more consistent with the remainder of the SBC 13-state region.

The Commission should reject the argument by Ameritech that reducing the shared and common cost allocator without also revising the updated TELRIC studies provided by Ameritech would result in "single-issue ratemaking." See Ameritech Illinois Ex. 13.1 (Johnson Rebuttal), p. 13. This assertion that the Commission cannot simply alter the shared and common cost fixed allocator without also updating the underlying TELRIC studies to which the allocator will be applied holds no weight in this case. First, a straightforward reading of the Commission's Merger Order shows that this is precisely what the Commission had in mind.¹⁰ If Ameritech wanted to challenge this portion of the Commission's decision, it should have done so in the rehearing phase or on appeal (it did neither), and not by attacking that provision of the Merger Order in a proceeding aimed at implementing it.¹¹

Second, as described above, Ameritech's shared and common cost methodology (both that created by Andersen Consulting, and Ameritech's newly-adopted methodology), establishes a shared and common cost pool that must be allocated over UNEs based upon the direct cost of the UNEs and interconnection services demanded by the CLECs. This shared and common cost pool is largely independent of the underlying direct TELRIC costs of producing UNEs and interconnection services. As Mr. Starkey pointed out, by definition, these shared and common costs cannot be directly attributed to the production of any network element or interconnection service. As a result, no economic inconsistency results from recognizing savings in the shared and common cost

¹⁰ See Merger Order at 146.

¹¹ Although the Commission also required Ameritech to file updated TELRIC studies specific to individual UNEs, those studies were intended to reflect savings in Ameritech's direct costs of providing service on a going-forward basis (*i.e.*, more capital or investment-related savings as opposed to expense-related savings). Joint CLEC Ex. 1.0 (Starkey Direct), p. 10.

pool (by reducing the shared and common cost fixed allocator), while maintaining Commission-approved direct TELRIC costs. Id., p.10.

In stark contrast to Ameritech's present opposition to the CLECs' proposal, Ameritech not only previously sanctioned the concept of flowing through merger-related savings to CLECs purchasing UNEs and interconnection services via a reduction in its shared and common cost markup, but Ameritech actually proposed this method of returning merger-related savings to competitors. In its Merger Order, the Commission adopted the proposals of Ms. Toppozada-Yow of the Commission Staff with respect to reductions in Ameritech's shared and common cost markup for purposes of allocating merger related savings to CLECs. Ms. Toppozada-Yow provided comments that were consistent with modifications suggested by Ameritech's own witness, Mr. Gebhardt:

Q. Please explain how carriers purchasing Ameritech Illinois' unbundled network elements, interconnection and transport and termination services would benefit from merger related synergies under your modified proposal.

A. Consistent with Mr. Gebhardt's proposal, these carriers would benefit from the merger related synergies through updated rates resulting from Ameritech Illinois' modification to the TELRIC, shared and common costs.¹²

Likewise, in response to Ms. Toppozada-Yow's testimony, Mr. Gebhardt provided his endorsement of this allocation methodology:

Q. In response to your rebuttal testimony, Ms. Toppozada-Yow has substantially modified her rate design proposal for flow-through of the savings, if flow-through is required by the Commission. (Staff Exhibit 3.01, pp. 38-43) Have these modifications addressed your concerns on this limited rate design issue?

¹² Id. (Starkey Direct), p.11 (quoting Rebuttal Testimony of Rasha Toppozada-Yow in Docket No. 98-0555, p. 42.

- A. Yes. Although I still do not believe that flow-through should be required, Ms. Toppozada-Yow's modified rate design proposal is reasonable and could be adopted by the Commission.¹³

Finally, it is worth noting that among the reasons offered by Ameritech, GCI and the Commission Staff in support of the Joint Proposal is that it avoids the time and expense of tracking merger savings and of a Commission investigation of the amount of the savings. This rationale is equally applicable to reducing the shared and common mark-up as recommended by the Joint CLECs and as clearly contemplated by the Commission in its Merger Order. As will be set forth below, Ameritech has updated its shared and common costs most recently in Indiana. That post-merger study can easily be applied by the Commission in Illinois to accomplish the same efficiencies offered as a rationale for adopting the Joint Proposal.

A. The Joint CLECs Recommend Adoption of the Shared and Common Fixed Allocator Recently Filed in Indiana.

Consistent with the Commission's Merger Order, the CLECs asked Ameritech in discovery to "quantify any reduction in such allocator [current fixed allocator] that [is] attributable to savings resulting from the merger of SBC and Ameritech." Ameritech responded that the information was "not available." Joint CLEC Ex. 1.0 (Starkey Direct), p. 16. As a result, the Commission and the CLECs are left to rely upon the most readily available, and accurate information that exists. That information was recently submitted by Ameritech in Indiana.

¹³ *Id.* (Starkey Direct), p. 12 (quoting Surrebuttal Testimony of David H. Gebhardt, in Docket No. 98-0555, SBC-Ameritech Ex. 3.2, page 40).

The unsolicited shared and common cost study recently filed by Ameritech in Indiana represents Ameritech's most recent *post-merger* proposal for a reasonable shared and common overhead allocator. Although perhaps an imperfect proxy, in the spirit of this proceeding aimed at settling complex issues so as to avoid future litigation and delay, CLECs recommend that the Commission rely upon this available information for purposes of implementing its Merger Order, and in doing so, reduce Ameritech's current and bloated shared and common cost fixed allocator of ** ** [CONFIDENTIAL] to a more reasonable ** ** [CONFIDENTIAL].

Ameritech will likely urge the Commission to disregard the Indiana figure from the record based on the fact that the Indiana Commission recently granted the CLECs' motion to strike the study and supporting testimony. The Indiana Commission's order, however, makes clear that the basis for granting the motion was procedural, rather than anything having to do with the substance or validity of the testimony and underlying study. Furthermore, the Indiana Commission's order does not bar the use of the testimony in this proceeding. (See Order dated March 7, 2002 in Indiana Utility Regulatory Commission Cause No. 40611-S1, p. 1).

The Commission should also reject Ameritech's suspicious discovery of "errors" in the Indiana cost study. Tr., p. 2829. Ameritech's witness, Mr. Barch, first testified that correction for these errors would result in a ½% to 1% increase. Tr., p. 2758. It was only upon prompting from Ameritech's counsel that Mr. Barch asserted – while simultaneously admitting that he had not run the numbers – that these purported

corrections could bring the Indiana factor up as high as 25%.¹⁴ Tr., p. 2829. The same Ameritech witness also testified that the Indiana study is “independent and stand-alone” and produces “accurate” and “reliable results.” Tr., pp. 2831-33. Mr. Barch also testified that the alleged errors in the study – a study he claims has been around for several months -- were identified only after the Joint CLECs’ testimony was filed in this proceeding asking the Commission to apply the results in Illinois. Tr. 2832. The Joint CLECs submit that Mr. Barch’s denial of any cause and effect between the filing of CLECs testimony in this proceeding and the discovery of the alleged errors in the study (tr., p. 2832) rings particularly hollow given the very suspicious sequence of events.

B. Alternatives to the Indiana Shared and Common Cost Allocator

If the Commission does not accept this Indiana figure, which is the best and most current proxy for estimating a post-merger shared and common allocator for Illinois, it could alternatively adopt the Illinois-specific ** ** [CONFIDENTIAL] fixed allocator that CLEC witness Starkey derived by eliminating the duplicative product support costs originally included in the direct TELRIC costs developed in Docket 96-0486.¹⁵ Joint CLEC Ex. 1.0 (Starkey Direct), p. 7, FN 7. While based upon pre-merger data, this

¹⁴ Even if the Commission accepts this bald assertion, which is unsupported by any data, Mr. Barch’s “corrections” would result in a shared and common cost factor nearly identical to that recommended by Staff Witness Marshall in Docket 00-0700, as more fully discussed herein. (See Staff Exhibit 36.0 (Marshall Rebuttal), Att. 1, pp. 8-9).

¹⁵ As noted previously, the ** ** [CONFIDENTIAL] figure represents the “total common” cost markup included in Ameritech’s “Shared and Common Cost Factors Model.” While Ameritech also includes ** ** [CONFIDENTIAL] for “Product Support” costs, CLEC witness Starkey noted that the “product support” expenses were already included in the direct TELRIC costs (not shared and common costs) using Ameritech’s previous methodology which was approved by the Commission in Docket No. 96-0486. Ameritech witness Barch admitted that he did not review the TELRIC studies adopted in Docket 96-0486 and did not dispute Mr. Starkey’s assertion on this point. Tr., pp. 2784-85. Mr. Barch’s assertion that no double counting had occurred was limited to the post-merger TELRIC and shared and common studies themselves, and completely missed Mr. Starkey’s point. Tr., p. 2792. In any event, this is the reason why

option still presents a more accurate picture of the true Illinois shared and common cost markup than does the existing, vastly-inflated factor.

Finally, should the Commission not favor either of these options, it could adopt Staff witness Marshall's recommended cumulative shared and common costs factor of no more than 24.29%, which is still considerably less than the current Illinois factor. (Staff Exhibit 36.0, (Marshall Rebuttal), Att. 1, pp. 8-9. While the CLECs believe that this allocator is still too high as evidenced by the shared and common allocators from almost every other SBC state, it is still closer to reality than is the present, bloated Illinois shared and common mark-up factor.

C. The Joint CLECs Allocation Approach is Better for Competition than the One-Time Credit in the Joint Proposal.

There is an absolute economic benefit to allocating the competitors' merger-related savings through more reasonable, cost-based UNE rates, as opposed to the Joint Proposal's one-time cash payment. There are positive demand elasticity and competitive impacts associated with reducing post-merger UNE rates to more reasonable levels. CLEC witness Mr. Starkey urged the Commission to consider two distinct proposals presented in this case.

Under the Joint CLEC proposal, the CLECs would receive their merger savings benefits in the form of a lower, more reasonable and cost-based UNE prices, upon which they can rely in making business decisions regarding expanding competitive operations in Illinois. More reasonable UNE prices mean that customers who were once only marginally attractive (residential customers for example), may now become profit-

Mr. Starkey used the ** ** [CONFIDENTIAL] figure as the applicable shared and common cost

generating, competitive targets. As competitors expand their operations to serve these additional customers, those CLECs purchase more UNEs and interconnection services from Ameritech. Further, because Ameritech's shared and common cost percentage is calculated roughly by the ratio of total shared and common costs to direct costs for UNEs,¹⁶ as more UNEs are purchased, the same fixed, shared and common cost pool is spread over a larger number of UNEs, thereby resulting in even greater per-unit shared and common cost savings. Joint CLEC Ex. 1.0 (Starkey Direct), p. 9.

In total, the reduced UNE rates that would result from more reasonable post-merger shared and common costs would result in passing on the benefits of merger-related savings not only in the form of expanded competitive opportunities for CLECs, but also to the Illinois public in the form of greater competition and consumer choice. Joint CLEC Ex. 1.0 (Starkey Direct), pp. 8-9.

Mr. Starkey also outlined for the Commission the impact of the Joint Proposal's transmission of merger-related savings to the CLECs in the form of a lump-sum payment. This scenario would not result in more reasonable UNE rates. Customers who were only marginally attractive before the allocation of merger-related savings would remain only marginally attractive. While it could be argued that the CLECs could use the one-time payment to fund further expansion, without UNE rates reflecting the merger-related savings that its competitor, Ameritech will enjoy, competitors face a larger, more efficient and lower-cost competitor in the market, while paying the same, bloated, pre-merger UNE rates. The Joint Proposal provides little, if any, incentive for expansion

markup identified within the study. See Joint CLEC Ex. 1.0 (Starkey Direct), p. 7, FN 7.

¹⁶ Total Shared and Common Cost Pool/Total Direct cost for UNEs. *Id.*, p. 9.

based upon most business models. As a result, while competitors get a one-time payment that might be welcomed by some CLECs in the short run, given the dismal capital markets faced by most competitors, the long-term and pro-competitive benefits of the Commission-ordered allocation plan would be altogether lost. The Commission's Merger Order clearly intended that competition be promoted by reductions in UNE prices attributable to lower shared and common costs resulting from the merger. *Id.*, p. 9.

D. After Reducing the Shared and Common Cost Allocator, UNE and Interconnection Rates Should be Capped for Five Years.

Joint CLECs further urge the Commission to require Ameritech to cap its UNE and interconnection service rates for a period of not less than five years. CLEC witness Starkey explained that Ameritech is sure to realize merger-related savings not only in its overhead cost structure, but also in its cost structure generating direct TELRIC costs. Joint CLEC Ex. 1.0 (Starkey Direct), pp. 16-17. Indeed, the Commission recognized this eventuality in its Merger Order, and plainly intended that CLECs share those cost savings, since the Commission required Ameritech to file updated, post-merger TELRIC cost studies. Unfortunately, every indication is that Ameritech's "updated" cost studies provide direct TELRIC results substantially *exceeding* those currently supporting Ameritech's approved UNE rates—a circumstance not likely anticipated either by the Commission or Ameritech's competitors. Instead of requiring CLECs to expend the time and resources to debunk the numerous assumptions and inputs erroneously exaggerating Ameritech's post-merger direct costs, the Joint CLECs would prefer simply that the Commission prohibit Ameritech from raising its direct costs for a time certain (5 years). Only with this type of certainty can the competitive community obtain the opportunity to

exercise their business plans without the regulatory risk that currently hangs over their heads in the form of Ameritech's exaggerated cost studies and the potential increase in UNE rates that these studies represent. Stated another way, if CLECs cannot share with Ameritech the benefits of merger-related savings to the extent originally anticipated by the Commission, the Commission should at least provide the CLECs with some certainty that they will not suffer *increases* in the very UNE rates that were supposed to have fallen. A five year "cap" on UNE rates would effect this protection. Id.

The CLECs agree wholeheartedly with GCI witness Charlotte Terkeurst that TELRIC proceedings demand significant time and effort to complete;¹⁷ thus, the CLECs are not asking this Commission to review all of Ameritech Illinois' cost studies in order to establish new, TELRIC-based UNE rates. As the Commission is quite aware, the CLECs are *still*, to this day—four years after the Commission issued its seminal UNE rate Order in Docket No. 96-0486 -- fighting with Ameritech to comply with that Order for purposes of providing reasonable, TELRIC-based rates.¹⁸ The CLECs simply lack the substantial resources necessary to fight every attempt by Ameritech to raise the UNE rates already approved by this Commission. As a result, the CLECs are decidedly *not* requesting another TELRIC proceeding, but rather recommend that the Commission follow through on its decision in the Merger Order to adjust Ameritech's shared and common cost allocator consistent with Ameritech's merger-related savings. Joint CLEC Ex. 1.0 (Starkey Direct), p. 14.

¹⁷ GCI/City Exhibit 2.0 (Terkeurst Direct), p. 15.

¹⁸ See Administrative Law Judge's Proposed Order in Docket No. 00-0700.

The CLECs' proposed approach is conservative, if anything, in that it is quite likely that Ameritech's direct costs have also fallen as a result of the SBC/Ameritech merger. However, Mr. Starkey described that in his experience with the post-merger cost studies filed in support of SBC/Ameritech's unbundled network elements, these studies have inexplicably identified, almost without exception, dramatically increased costs. Although the Joint CLECs are not privy to the cost studies filed by Ameritech in response to the Merger Order, Mr. Starkey testified that "common opinion appears to be that those cost studies also exhibit dramatically increased costs when compared to rates already adopted by this Commission." *Id.*, p. 14. Mr. Starkey continued on to state that such increases result *not* because the telecommunications industry is somehow experiencing increased costs (indeed, costs continue generally to decline for the telecom sector), or because Ameritech has suddenly identified areas wherein its original studies missed important cost components of its network, but due to the SBC cost organization's decision to implement substantially modified inputs and assumptions. If CLECs had the time, resources and inclination necessary to undertake another TELRIC proceeding at this time, they could certainly make reasonable arguments that Ameritech's existing rates do not adequately reflect the cost savings resulting from Ameritech's merger, and that reductions should be made. However, simple practicality—the same simple practicality that caused Ameritech to settle on the amount of merger savings -- does not support such a proceeding. The CLECs therefore believe that this task is best accomplished in this proceeding by requiring Ameritech to:

1. Reduce its current shared and common cost fixed allocator of approximately 35%, to the level included in Ameritech's most recent,

post-merger shared and common cost study filed in Indiana (** **
[CONFIDENTIAL]).

2. After Ameritech has replaced its existing allocation of shared and common costs with the new fixed allocator identified above, and reduced its UNE rates accordingly, the Commission should require Ameritech to "cap" the resulting UNE and Interconnection service rates for a period not less than 5 years.

IV. JOINT CLECs' ALTERNATIVE MODIFICATIONS TO THE JOINT PROPOSAL

The CLECs emphasize that the Commission need not alter other portions of the Joint Proposal (other than the resale adjustments discussed below) if it chooses simply to enforce its original decision in the Merger Order. This resolution remains the CLEC Coalition's clear preference and primary recommendation. Nonetheless, if the Commission reaches the conclusion that the Joint Proposal is now preferable for purposes of resolving issues surrounding merger-related savings, the CLEC Coalition believes some modifications should be made to reflect likely CLEC growth over the next couple of years.

At a high level, the Joint Proposal is structured for purposes of capturing merger related savings that will accrue over a four-year period. The Joint Proposal accomplishes this objective by estimating merger related savings for the years 2001-2004 and then discounting that flow of financial benefit (*i.e.*, merger savings), to a current year value (assuming a discount rate of 9.64%). That current year value is then divided equally among Ameritech's shareholders and Ameritech's customers. The share attributable to Ameritech's customers is then allocated among CLECs, IXCs, small business customers

and residential customers based upon the percentage of intrastate revenues generated by each respective customer group in 2001.

The problem with the Joint Proposal is that intrastate revenues attributed to CLECs are growing at a much higher annual rate than are revenues for any of the other customer groups – a fact conceded by Ameritech witness Fritzlen. Tr., p. 2646. Hence, more of the merger-related savings from later years (if calculated every year) would be attributable to CLECs than to the other customer groups. By using static 2001 data to allocate merger savings realized over four years, the Joint Proposal understates savings properly attributed to CLECs. Joint CLECs Ex. 1.0 (Starkey Direct), pp. 18-19.

The Commission can solve this problem quite simply by establishing a growth trend based upon current data such that it could derive allocations for each of the four years over which merger related savings are expected to accrue, rather than simply allocating the merger-related savings attributable to customers using static 2001 data. The Commission could then discount these allocations back to current figures (using the same discount rate) in order to arrive at a “growth-adjusted allocation.” Mr. Starkey performed this calculation. The table below compares the allocation figures in the Joint Proposal to the allocations that would result from using the growth-adjusted allocation described by CLEC witness Starkey:

Customer Group	MOU Allocation	“Growth Adjusted Allocation”
CLEC	\$6.94	\$19.9
IXC	\$11.13	\$11.37
Small Business / Residential	\$178.93	\$165.10
Total	\$197	\$197

Id., (Starkey Direct), p. 19.

Mr. Starkey derived the basis for the revised growth percentages from data provided by Ameritech. The following table reflects the year-to-year revenue growth from 1996 through 2001 for each of the following three customer groups: (1) CLECs purchasing UNEs, (2) IXC, and (3) End Users:

REVENUE GROWTH RATES						
	UNE CLECs	Growth	IXC	Growth	End Users	Growth
1996	\$143,000					
1997	\$959,000	571%				
1998	\$3,246,000	238%				
1999	\$11,833,000	265%	\$145,800,000		\$2,867,900,000	
2000	\$33,488,000	183%	\$152,700,000	5%	\$3,172,700,000	11%
2001	\$105,378,000	215%	\$169,000,000	11%	\$2,717,300,000	-14%
Average Yearly Growth Rate	294%		8%		-2%	

Id., (Starkey Direct), p. 20. This chart – based on Ameritech’s own data – confirms that CLEC revenue growth has far exceeded that of Ameritech’s other customer groups.

In an effort to provide as conservative an estimate as possible, Mr. Starkey assumed that CLECs would continue to grow at a rate equal to 100% per year (approximately 1/3 that of the yearly average using Ameritech’s *actual* data), and projected that consumer revenues would stay relatively constant, despite the reductions experienced by Ameritech in the recent past. Finally, Mr. Starkey used the IXC growth rate reflected by Ameritech’s data. Id. (Starkey Direct), pp. 20-21.

Based on these adjustments which again are based on Ameritech’s own growth data, the CLECs’ share of the allocated merger savings would be \$19.9 million, as

opposed to the \$6.94 million CLECs would receive based on the static look at CLEC revenue in 2001. Allocating merger savings based on Mr. Starkey's forward-looking proposal would ensure that the allocation matches the time period the merger savings will accrue.

Ameritech's criticisms of Mr. Starkey's revised allocation plan based on anticipated revenue growth are wholly without merit. Ameritech's primary criticism is that CLECs in Illinois will not be able to maintain the growth rate they've enjoyed to date, and in fact claim that if Mr. Starkey's projected growth rates come to pass, Ameritech will lose approximately one-half of its lines to CLECs by 2004, and all of its lines to CLECs by 2006. Ameritech Illinois Ex. 14.1 (Fritzlen Rebuttal), pp. 5-6. It should be noted, however, that Mr. Starkey conservatively assumed a growth rate that equates to approximately one-third of the growth *actually* experienced by Illinois CLECs since 1996. Joint CLEC Ex. 1.0 (Starkey Direct), p. 20.

Regarding Ameritech witness Fritzlen's assertion that Mr. Starkey's growth rates for CLEC revenue would result in Ameritech losing nearly one-half of its end-user lines to CLECs by 2004, Joint CLECs' initial response is: So what is wrong with that? The prospect of so many Illinois customers exercising their right to choose another provider for local phone service would have to be considered a positive development for Illinois. Certainly, recent and anticipated Commission decisions in pending proceedings, including the proceeding on implementing the new telecommunications amendment to be

Illinois Public Utilities Act,¹⁹ should ensure the availability of the UNE-Platform as a primary entry vehicle for CLECs in Illinois and should ensure that CLECs experience even greater growth in the future. Id. (Starkey Direct).

Although the Joint CLECs would like nothing better than to see a growth in CLEC market share of nearly 50% of Ameritech's lines by the end of 2004, the fact is that Mr. Fritzlen's analysis is somewhat flawed. Mr. Fritzlen assumes almost a one-to-one ratio between CLEC revenue growth and CLEC line growth.²⁰ Mr. Fritzlen assumes this ratio based on a comparison of CLEC UNE lines and Revenue from CLECs for the years 1999 through 2001. Ameritech Illinois Ex. 14.1 (Fritzlen Rebuttal), Att. 1. Mr. Fritzlen never looked at CLEC UNE line data for the years 1997 and 1998, however. Tr., p. 2715. Including CLEC UNE line data for the years 1997 and 1998 -- as reported by Ameritech to the Federal Communications Commission shows that when taking into account the years Mr. Fritzlen ignored, there is no basis for Mr. Fritzlen's conclusion that CLEC UNE lines and CLEC revenues grow at similar rates. Ameritech reported to the FCC that there were 17,569 CLEC UNE lines in service at the end of 1997, and 20,469 CLEC UNE lines in service at the end of 1998. WorldCom/Fritzlen Exhibits 2,3. This 17% growth rate stands in stark contrast to the 238% growth in CLEC revenue from 1997 to 1998.

More importantly, with the availability and improved economics for the UNE-Platform in Illinois -- about which Mr. Fritzlen knows virtually nothing²¹ -- there is no

¹⁹ Filing to Implement Tariff Provisions Related to Section 13-801 of the Public Utilities Act, Docket No. 01-0614. The Administrative Law Judge's Proposed Order in this proceeding was issued on March 8, 2002.

²⁰ Actually, Mr. Fritzlen assumes that CLEC lines will grow at a rate that is 83% of CLEC revenue growth.

²¹ Tr., p. 2740.

reason to assume that CLEC revenue going forward will not, once again, outpace the growth in CLEC UNE lines. The availability of UNE-P will have two impacts affecting the calculation. First, CLECs that were previously using a resale platform may now find it cost effective to provide service via UNE-P. This would increase UNE revenues and have a corresponding downward impact on the retail/resale revenue growth rate. Second, CLEC revenue will come from purchasing all of the UNEs that are part of the UNE-Platform (i.e., loops, unbundled local switching, shared transport), as opposed to just unbundled loops. Indeed, Ameritech witness Fritzlen readily conceded that with the availability and improving economics of the UNE-Platform, it is likely that CLECs will purchase more and more UNEs and less resale. Thus, Mr. Starkey's assumptions about CLEC revenue growth during the life of the merger savings calculation are more than reasonable and should be adopted by the Commission if it rejects the CLECs' preferred approach to allocating CLECs' share of merger savings.

V. CREDITS FOR RESELLERS UNDER JOINT PROPOSAL

A. Credit for Small Business Customers of Resellers

Under the Joint Proposal as initially submitted by Joint CLECs, three groups of customers would receive a one-time credit, which, in total, would equal an amount that the Joint CLECs agree is a reasonable approximation of the discounted present value of SBC/Ameritech merger savings that would have been attained between now and 2004. One of the three groups of customers are the retail customers of Ameritech, and the retail customers of CLECs served by resale of Ameritech's services. Under the Joint Proposal, credits would be issued to retail residential customers and small business customers. For

purposes of determining eligibility for the credit, Ameritech defined small business customers as business customers with four lines and less at a particular location.²² Accordingly, credits would be issued on a per line basis to CLECs who resell Ameritech services to residential customers and to “small business customers” with four lines or less.

McLeodUSA took exception to the Joint Proposal because rather than give CLEC resellers a per line credit for each of the resellers’ actual small business customer lines (as defined by Ameritech), Ameritech proposed to use its own alleged percentage of retail lines serving small business customers – 13% -- as a proxy for the CLECs’ percentages. (McLeodUSA Ex. 1.0 (Terfler Direct), p. 5. Ameritech witness Johnson testified that use of a proxy was justified because it was “cumbersome, expensive and unverifiable” to use actual CLEC customer mixes to determine the number of CLEC resold business lines eligible for the credit. (Ameritech Ex. 13.0 (Johnson Direct), p. 10.

McLeodUSA witness Terfler testified that 43% of McLeodUSA’s lines serving business customers via resale provide service to “small business customers” as defined by Ameritech for purposes of the Joint Proposal. As a result, the amount of credit Ameritech would calculate for McLeodUSA under the Joint Proposal using Ameritech’s 13% proxy number would substantially shortchange McLeodUSA for its resold lines serving “small business customers.” (McLeodUSA Ex. 1.0 (Terfler Direct), p.5.

In their rebuttal testimony, Ameritech, GCI and Staff agreed with McLeodUSA witness Terfler that applying the 13% proxy to McLeodUSA was not reasonable. (See,

²² Thus, even a business customer with many lines may still be eligible for some credit due to the fact that some of that customer’s locations may have one to four lines. McLeodUSA Exhibit 1.1, p. 7.

GCI/City Ex. 2.0 (Terkeurst Rebuttal), p. 2; Staff Exhibit. 36.0 (Marshall Rebuttal), p. 4. Ameritech witness Ms. Johnson testified that Ameritech accepted that the 13% proxy figure is too low relative to McLeodUSA's operations and "would not object" to adjusting McLeodUSA's credit amount based on the 43% figure. (Ameritech Illinois Ex. 13.1 (Johnson Rebuttal), p. 4. In addition, Ameritech witness Fritzlen presented a calculation of what the per-line credits to business customers would be using the 43% figure to determine the number of McLeodUSA's resold "small business customer" lines. Ameritech Illinois Ex. 14.1 (Fritzlen Rebuttal), Attachment C.

The 43% figure of resold business lines serving McLeodUSA small business customers provided by Mr. Terfler is uncontroverted and should be used in calculating the credit due McLeodUSA for its resale operations for small business customers. The 13% proxy figure that Ameritech originally proposed to use grossly understates the amount of credit that would be due in respect of McLeodUSA's "small business customers" served via resale. Further, since Ameritech witness Fritzlen has already recalculated the per-line credits using the 43% actual percentage rather than the 13% proxy percentage for McLeodUSA, there would be no administrative burden on Ameritech to use the 43% figure for McLeodUSA.

The only remaining proxy issue for the Commission to resolve is whether the credit for "small business customers" of other CLEC resellers should be based on the 13% proxy proposed by Ameritech, the 43% figure based on McLeodUSA's resale operations, or some other figure. McLeodUSA submits that its 43% small business customer line mix represents the actual experience of a CLEC reseller, and is a more reasonable measure for the remaining CLEC resellers than Ameritech's 13% proxy.

Ameritech's retail arm is not a CLEC operation. There may be several reasons why Ameritech's purported percentage of lines serving small business customers would be unrepresentative for CLEC resellers. For example, as the incumbent local exchange carrier in the Chicago area and in many other urban areas of Illinois outside Chicago, Ameritech may continue to have many extremely large customers, such as the State of Illinois, City of Chicago, Cook County, University of Illinois, Department of Defense, and other large institutional and industrial telecommunications users. The presence of these very large customers could substantially drive down the percentage of Ameritech's retail lines serving "small business customers." Since there are a limited number of such very large customers, CLEC resellers would not have the same proportion of very large business customers as do Ameritech's retail operations.²³

Given that Mr. Fritzlen's rebuttal exhibit shows that using McLeodUSA's 43% figure to determine the number of "small business customer" lines of all resellers does not materially alter the amount of the per line credit, McLeodUSA recommends that this is the more reliable and less administratively burdensome approach.²⁴ This approach would allow Ameritech to get the credits issued as quickly as possible, and avoid waiting for collection of data from other resellers about small business customer line mix.

²³As an alternative to using either McLeodUSA's actual 43% figure, or Ameritech's 13% proxy figure, the Commission could direct Ameritech either to (1) collect actual data from each CLEC reseller as to the percentage (or number) of each CLEC's resold lines that are provided to "small business customers, or (2) develop a proxy number more representative of actual CLEC experience than the 13% figure. However, alternative (1) could impose additional administrative burden on Ameritech and delay issuance of the credits, while a basis for developing a CLEC proxy percentage (alternative (2)) has not been adequately developed in the record. Further, other CLEC resellers have not come forward in this reopening to complain about either Ameritech's 13% proxy figure, or the use of McLeodUSA's actual 43% figure.

²⁴Ameritech witness Fritzlen's rebuttal Attachments C and D shows that the per-line credit for "small business customers" would need to be reduced by only 23 cents (\$42.68 to \$42.45) if the 43% rather than the 13% figure is used for all other CLEC resellers.

B. Treatment of Residence Customers Served Via Resold Centrex

The Joint Proposal also provides a per line credit to residential customers served by Ameritech at retail and by CLECs at retail using resold Ameritech services.

Ameritech's original position was that McLeodUSA would be credited on a per line basis for only residential customers served via resale of flat residential service. Ameritech took the position that McLeodUSA would not receive a per line credit for lines serving a McLeodUSA residential customer via resold Centrex service. Instead, Ameritech's position was that all McLeodUSA customers served via Centrex resale should be treated as business customers, because Ameritech classifies Centrex as a business service. The result of this proposed treatment was that under the Joint Proposal, Ameritech would give McLeodUSA a per-line credit for only 13% of McLeodUSA's resold Centrex lines serving residential customers. See McLeodUSA Ex. 1.1. Such a result would have been unrepresentative of McLeodUSA's actual operations. McLeodUSA started offering competitive local service to residential customers in Illinois via Centrex resale in 1996. McLeodUSA Ex. 2.0 (Conn Direct), p.2. Today, McLeodUSA provides competitive residential service in Illinois using a number of different delivery platforms, including flat residential service resale, Centrex resale, UNE-platform, and UNE-Loop in conjunction with McLeodUSA's own switching. (Staff Conn Cross Exhibit 1). Assuming the Joint Proposal is approved, McLeodUSA will be compensated for its UNE-based residential customers (in some amount) through the allocation of merger savings issued to UNE customers contemplated by the Joint Proposal. However, under the initial Joint Proposal (as Ameritech proposed to implement it), McLeodUSA would not receive any credits for its residential customers served via Centrex resale.

McLeodUSA witness Terfler testified that as of January 31, 2002, McLeodUSA has 15,147 resold Centrex lines serving residential customers in Illinois. (McLeodUSA Ex. 1.0 (Terfler Direct), p. 9. In their rebuttal testimonies, Ameritech, GCI and Staff agreed that McLeodUSA should receive per-line credits for its residential customers served via Centrex resale. (see Ameritech Illinois Ex. 13.1 (Johnson Rebuttal), pp. 6-7. GCI/City Ex. 2.0 (Terkeurst Rebuttal), p. 2; Staff Exhibit 36.0 (Marshall Rebuttal), pp. 2-3. This result is consistent with Section 13-220 of the Public Utilities Act (220 ILCS 5/13-220), which provides that a retail residential service is a retail telecommunications service provided to a residential customer.

Sec. 13-220. Retail telecommunications service. "Retail telecommunications service" means a telecommunications service sold to an end user.

* * *

A residential retail telecommunications service is a retail telecommunications service provided to a residential end user.

Therefore, assuming the Commission approves the Joint Proposal in concept, Ameritech should be required to provide McLeodUSA the per-line credit under the Joint Proposal for each of its resold Centrex lines serving residential end users. Ameritech witness Fritzlen, in his rebuttal testimony, calculated what the per-line credits for business and residential customers would be assuming that McLeodUSA residence customers served via Centrex resale are included in the total number of residential lines. Fritzlen Rebuttal Exhibit 14.1.

CONCLUSION

As detailed herein, the Joint CLECs' takes no issue with the Joint Proposal as it applies to Ameritech's retail and resale customers. However, the CLECs cannot fully

support the Joint Proposal, since it fundamentally fails to extend the carefully crafted relief outlined in the Commission's Merger Order – lower UNE rates achieved through a modification of Ameritech's joint and common cost allocation factor—to Ameritech Illinois' UNE and interconnection services customers. The one-time, lump-sum payment envisioned by the Joint Proposal will not provide the competitive benefits that would result from, and which were the clearly-intended goal of, the terms of the Merger Order. For these reasons, the Commission should instead implement the CLEC recommendation that Ameritech be required to allocate merger-related savings to its UNE, interconnection and transport/termination services customers by reducing its shared and common cost allocator as described herein. By doing so, the Commission can direct an equitable distribution of Ameritech Illinois' merger-related savings not only to the company's retail resale customers, but to *all* parties. Anything less would be discriminatory, and would violate both the letter and spirit of the Merger Order. The Commission should also adopt the proposed changes for CLEC customers served through resale of Ameritech's retail services.

Dated: March 20, 2002

Respectfully submitted,

**AT&T Communications
Of Illinois, Inc.**

By: Cheryl Hamill / 

Cheryl Hamill
AT&T Communications of Illinois, Inc.
225 West Adams Street
Suite 1500
Chicago, Illinois 60601
Phone: 312.230.2665

Facsimile: 312.230.8211

e-mail: chamill@att.com

WorldCom, Inc.

By: Darrell Townsley

Darrell Townsley

WorldCom, Inc.

205 North Michigan Avenue

Suite 1100

Chicago, Illinois 60601

Phone: 312.260.3533

Facsimile: 312.470.5571

e-mail: darrell.townsley@wcom.com

McLeodUSA, Inc.

By: William A. Haas

William A. Haas

McLeodUSA, Inc.

6400 C Street, S.W.

P.O. Box 3177

Cedar Rapids, Iowa 52406-3177

Phone: 319.790.7295

Facsimile: 319.790.

e-mail: whaas@mcleodusa.com